

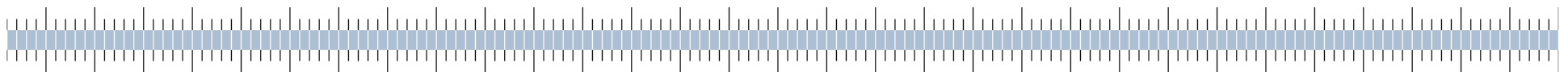


Innovations in wholesale payment systems

*Joint ECB/BdF Conference on
„Liquidity in interdependent transfer systems“*

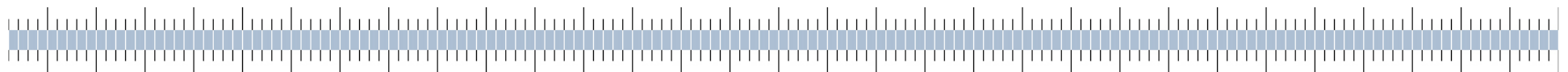
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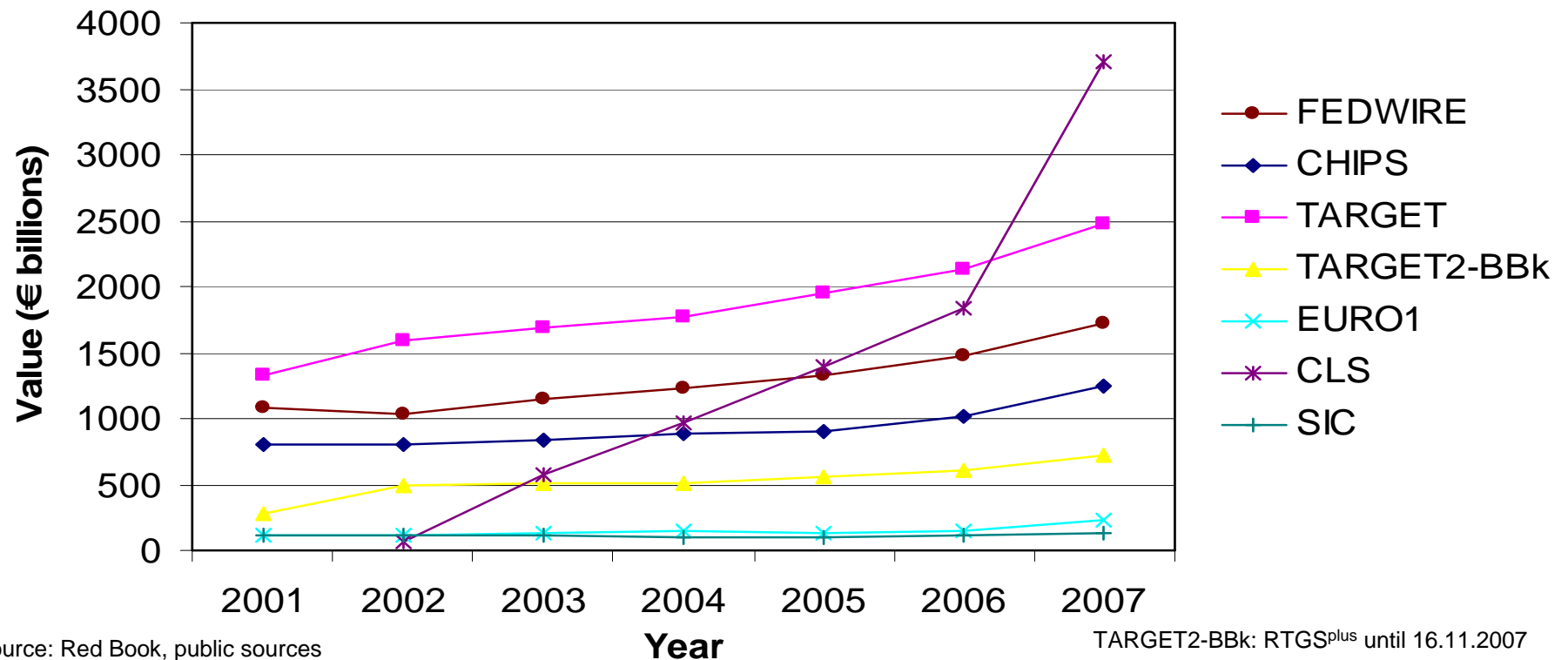
Agenda

- **Business developments in wholesale payment systems**
- **Developing lines in wholesale payment systems**
 - Overview
 - Limitation of credit risk: pre-funding
 - Increasing efficiency in liquidity management: advanced RTGS systems
 - Improving operational resilience
 - Growing importance of interdependencies
- **Central banks – achievements and challenges**



Business developments in LVPS

International Comparison - Value of Transactions Daily Average

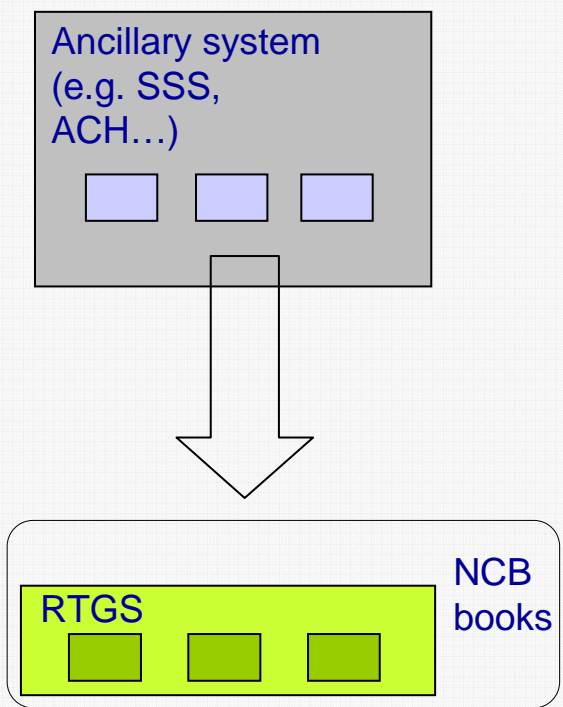


Developing lines in LVPS

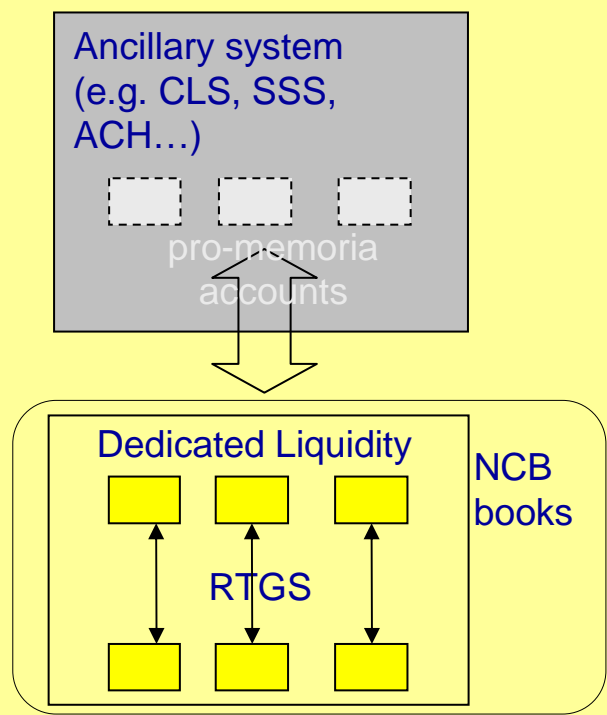
Range of risks	Traditional developing lines	Actual developing lines
Credit risk	<ul style="list-style-type: none"> ▪ Safe RTGS processing ▪ Settlement in central bank money ▪ DvP facilities 	<ul style="list-style-type: none"> ▪ Pre-funding of settlement obligations in other payment/settlement systems
Liquidity risk	<ul style="list-style-type: none"> ▪ Introduction of intraday credit lines 	<ul style="list-style-type: none"> ▪ Liquidity saving mechanism / controlling tools
Legal risk	<ul style="list-style-type: none"> ▪ System's legal framework 	<ul style="list-style-type: none"> ▪ Legal opinions ▪ Settlement finality framework
Operational risk	<ul style="list-style-type: none"> ▪ Back-up ▪ Limited variety of scenarios 	<ul style="list-style-type: none"> ▪ Use of global standards (SWIFT) ▪ Enhanced BC (9/11)
Systemic risk	<ul style="list-style-type: none"> ▪ Focus on interdependencies at domestic level 	<ul style="list-style-type: none"> ▪ Focus on interdependencies at global level

Credit risks: the issue of “pre-funding”

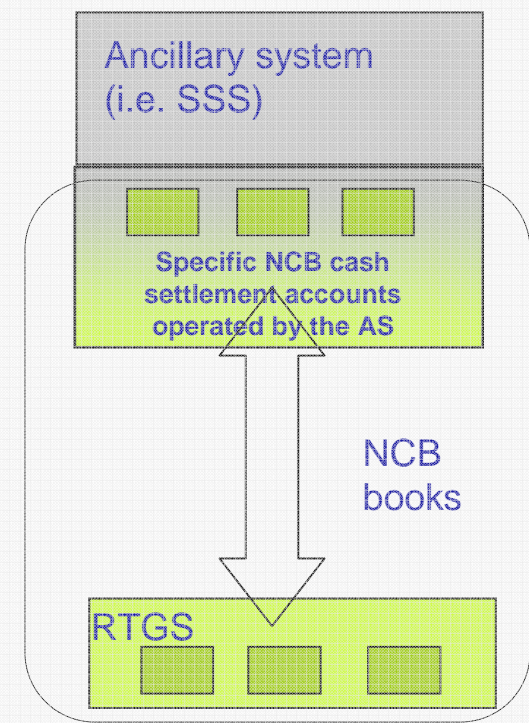
Interfaced model: Real-time settlement



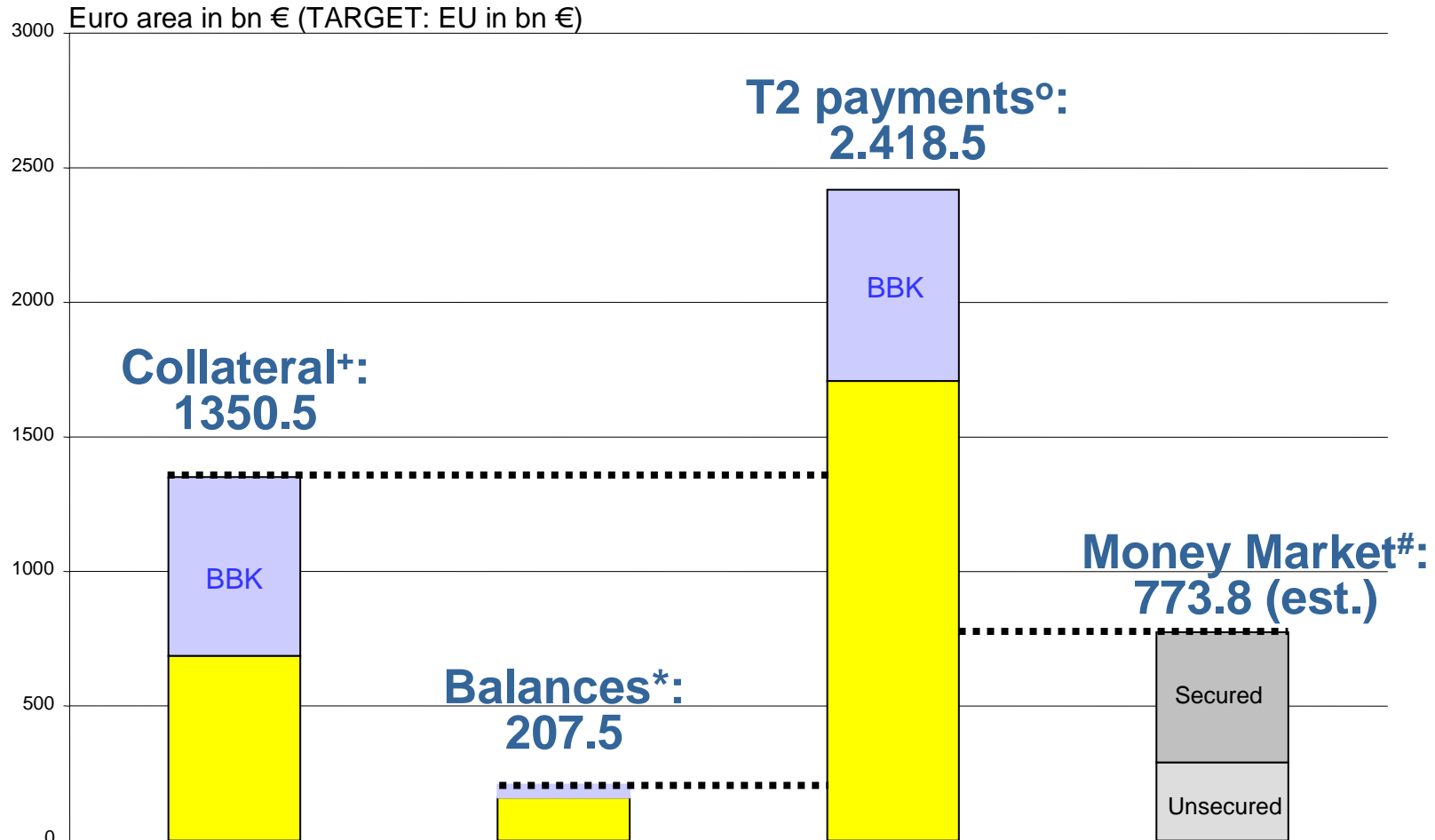
Dedicated model: Prefunding



Integrated model: Liquidity transfer



Sources of central bank liquidity

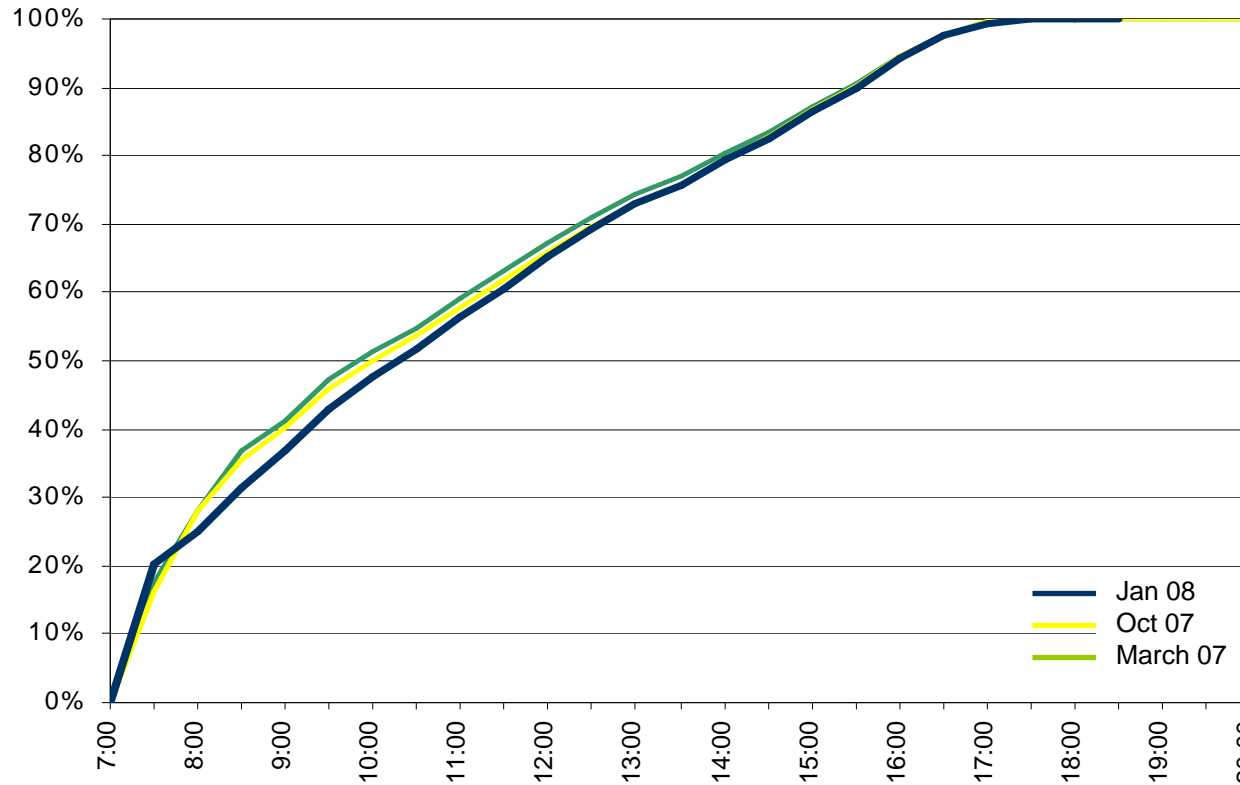


Source: ECB

(Basis: * 12 Feb 2008, + Jan 2008; ° daily average 2007; † daily average 2nd.Q. 2007 (lending and borrowing) by 158 panel banks)

Managing liquidity within TARGET2

Submission (volume) in RTGS+/TARGET2-BBk



Benefit of sender limits

Control

→ of liquidity outflow

Early submission

→ of payments

Mitigating

→ operational problems

Managing liquidity within TARGET2

Centralisation

- Payments/AS settlement at any T2 account
- Decentralised reserve holdings

Consolidation

- Reducing the access points to one
- Optimised liquidity management with multiple access points
 - Virtual account
 - Consolidated information
 - Multi-addressee access




Tiering

- Becoming an indirect participant
 - Correspondent relation

Network typology

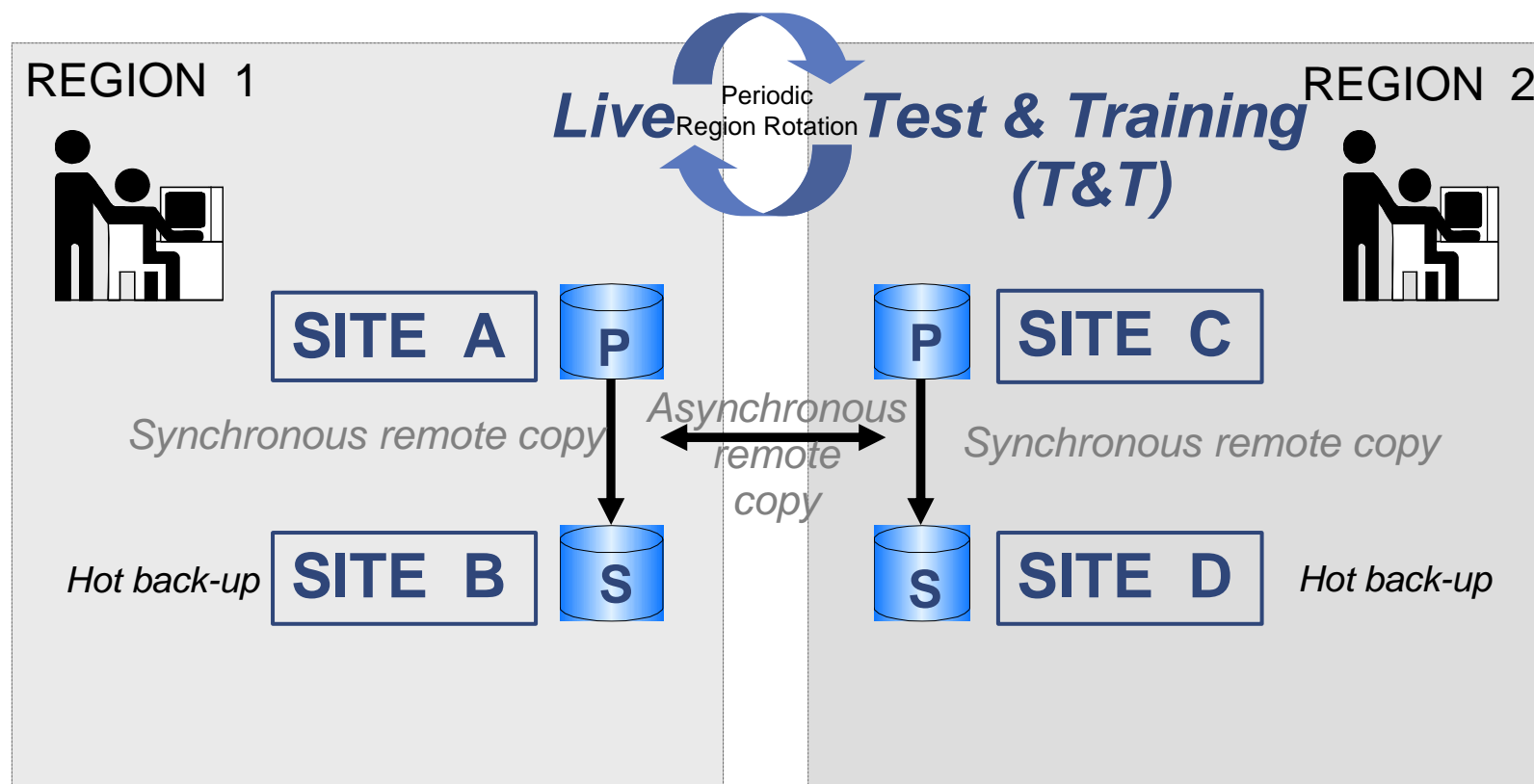
- High concentration of business activity
- High importance of „international“ banks

Impact of TARGET2-Securities

<ul style="list-style-type: none">■ Harmonisation / standardisation■ Cost savings■ Higher competition■ Higher resilience		Settling of multiple CSD in one RTGS account
	 	Liquidity optimisation + Collateral rationalisation <ul style="list-style-type: none">→ Reduced funding costs<ul style="list-style-type: none">→ Single European settlement schedule→ Common optimisation mechanisms for multiple CSDs→ Auto collateralisation with multiple CSDs→ Faster collateral mobilisation / use

Operational risk and TARGET2

I Business Continuity Concept



System interdependencies (examples)

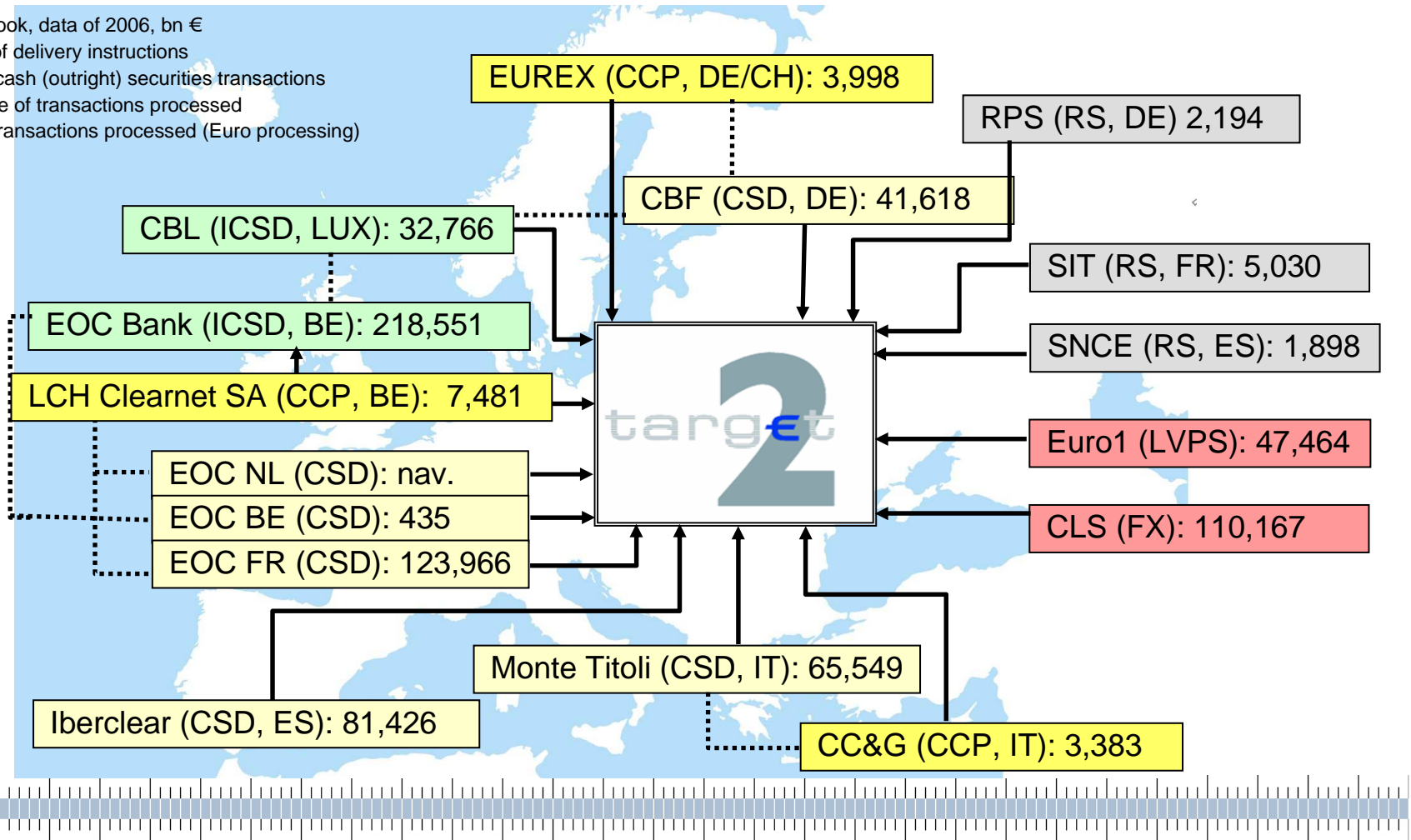
Source: Blue Book, data of 2006, bn €

(I)CSD: Value of delivery instructions

CCP: Value of cash (outright) securities transactions

RS/LVPS: Value of transactions processed

CLS: Value of transactions processed (Euro processing)

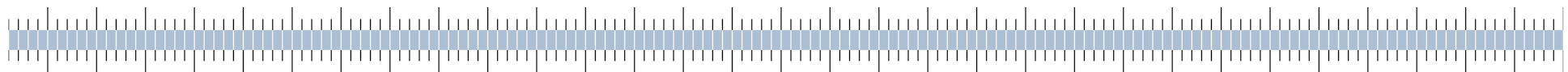


System interdependencies

Role of banks (example)

Impact of US-holidays on settled value in RTGS^{plus} (compared to monthly average, 2007 figures)

	on US-holiday	on business day after US-holiday
Birthday of M.L.King	- 9,28 %	+ 10,95 %
Washington's Birthday	- 34,38 %	+ 4,26 %
Memorial Day	- 64,62 %	+ 16,98 %
Independence Day	- 19,16 %	+ 8,59 %
Labor Day	- 24,79 %	+ 3,26 %
Columbus Day	- 28,52 %	+ 6,00 %
Veterans Day	- 19,75 %	+ 13,35 %



Central banks - achievements

- Balance between more stringent risk controls and efficiency
- Strongly supporting the development of mechanisms both for DVP settlement of securities and for PVP settlement of foreign exchange transactions
- Ensure that systemic risk is adequately controlled via overseeing systemically important payment and settlement systems
- Strengthening the resilience of the financial infrastructure by better back-up-facilities of own systems
- Protecting financial stability by providing a safe settlement assessment, improving liquidity efficiency and being responsive in times of crisis

Central banks - challenges

I Technical

→ Co-existence or integration of wholesale and retail payment systems?

I Interdependencies

→ How to cope with the growing importance of interdependencies?

I Globalisation

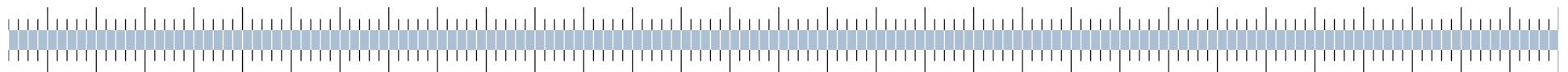
→ Impacts of emerging global payment / settlement systems?

I Collateralisation

→ Need for a more flexible use of collateral?

I Governance

→ Future role of central banks in payment / settlement systems?



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